STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE
Friday, March 4, 2005
10:30 a.m.
House Hearing Room 3

MEETING NOTICE

- Call to Order

- Approval of Minutes of December 16, 2004.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. Adoption of Committee Rules and Regulations.

2. AHCCCS - Review of Comprehensive Medical and Dental Program Capitation Rate Changes.

3. DEPARTMENT OF HEALTH SERVICES - Review of Developmental Disabilities Capitation Rate Changes.

4. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Long Term Care Capitation Rate Changes.
   B. Review of Expenditure Plan for Discretionary Workforce Investment Act Monies.

5. ATTORNEY GENERAL - Review of Allocation of Settlement Monies.

6. DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

7. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Report on Homeland Security Funding.

8. ARIZONA COMMUNITY COLLEGES - Report of Chairmen of Subcommittee on Dual Enrollment.

9. GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING - Report on Federal Revenue Maximization Initiative.

The Chairman reserves the right to set the order of the agenda.
02/24/05

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HOUSE OF
REPRESENTATIVES

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

December 16, 2004

The Chairman called the meeting to order at 9:45 a.m., Thursday, December 16, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Biggs
	Senator Anderson	Representative Gray
	Senator Arzberger	Representative Huppenthal
	Senator Cannell	Representative Lopez
	Senator Harper	
	Senator Martin	
	Senator Rios	
Absent:	Senator Bee	Representative Pearce, Vice-Chairman
		Representative Burton Cahill
		Representative Farnsworth
		Representative Huffman

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of November 17, 2004. The motion carried.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC Staff, said they keep track of JLBC statutory responsibilities for each year. The Committee has 137 different responsibilities, down 11 from last year, due to the fact that there were some old JOBS Pilot Program monitoring responsibilities that the Committee no longer has. These are posted on our Web site which is how we keep track of whether or not we are doing all the things required by statute.

EXECUTIVE SESSION

Senator Burns moved that the Committee go into Executive Session. The motion carried.

At 9:47 a.m., the Joint Legislative Budget Committee went into Executive Session.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 10:20 a.m. the Committee reconvened into open session.

Senator Martin moved that the Committee approve the salary increase for the Director of JLBC Staff in the amount of $3,450. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)

A. Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicle and Aircraft.

Ms. Shelli Carol, JLBC Staff, said this item is the ADOA request for approval for an increase in mileage reimbursement rates from 34.5 cents to 37.5 cents per mile for motor vehicles and from 42.0 cents to 99.5 cents per mile for aircraft. The proposed rates are consistent with federal rates. The Committee has at least the 3 options listed in the JLBC Staff memo. Option 3 is a request that the department report to the Committee by April 15, 2005, on the establishment of different motor vehicle rates depending on the availability of state motor pool vehicles. The federal government reimburses 37.5 cents per mile when a government vehicle is not available, but only 27 cents per mile when government-owned vehicles are available and an employee chooses not to use one. The Staff memo details what the contents of this report would be and this option could also be combined with either Options 1 or 2. The department has expressed its willingness to implement this policy for all Executive Branch fleets and reports that the ADOA taxi fleet is currently employed at 63.5% of capacity.

Senator Martin said he likes the dual-tier system because it encourages use of those vehicles.

Senator Arzberger said that it might work if they are providing the appropriate vehicle for the use. Law enforcement and Game and Fish travel on remote roads and need 4-wheel drive vehicles, for example.

In response to Senator Anderson, Ms. Carol said the reimbursement rate would apply to all agencies.

Senator Harper said he supported the rate change for motor vehicles but not air travel.

Senator Anderson asked if there had been any studies or performance review done to determine how effectively these vehicles are being used.

Ms. Carol said that the ADOA fleet is being used at approximately 64% of capacity. This report would allow ADOA to go out and do a more thorough investigation of usage. She stated that all of the questions the Committee has asked in the meeting would be addressed in a letter to the agency.

Senator Arzberger noted that a 3rd option could be combined with options 1 or 2 and she suggests that the Committee approve the increase in rates subject to adoption of a 2-tiered system later.

Senator Harper asked what state employees use the airplane travel.

Mr. Clark Partridge, GAO, State Comptroller, said in looking on the accounting system for the past 5 years, there has been no reimbursement for private aircraft.

Mr. Bill Hernandez, Management Services Division, ADOA, said one of the operations they manage is the ADOA fleet. In private industry the optimal utilization rate is about 85% in the taxi fleet. Three years ago they were at 80%. They do have excess capacity and would like to get to an 85% figure. There have been some concerns about additional demand. However, the taxi fleet is augmented by a contract with Enterprise Rental Cars.

Senator Cannell said we should try to decrease travel in the state and utilize teleconferencing more often.

Mr. Hernandez said that the cost per day with the ADOA fleet is about $26 and the cost for an Enterprise car is about $40 per day.

Senator Martin said maybe there should be a range for the 2nd tier and give the director discretion to make adjustments to keep it at 85%.

Senator Arzberger moved that the Committee approve options 1 and 3, which is 37.5 cents for motor vehicles and 99.5 cents for aircraft, and require ADOA to report back to the Committee by April 15 with regard to implementing a 2-tier system. The motion carried.

B. Consider Approval of Maximum Lodging Reimbursement Rates.

Ms. Shelli Carol, JLBC Staff, said this item is ADOA's request for an increase in maximum lodging reimbursement rates.

Senator Martin moved that the Committee approve the rates as submitted by the Arizona Department of Administration of $60 per day from the current $55 per day. Committee approval does not constitute an endorsement of additional appropriations to cover any higher travel costs. The motion carried.

STATE COMPENSATION FUND (SCF) – Consider Approval of Calendar Year 2005 and 2006 Budgets.

Mr. Eric Jorgensen, JLBC Staff, said this item is a review of the SCF's budget.

Representative Biggs asked why the Committee reviews the SCF budget since it does not seem to matter to them and another way to look at it, is why do they not care. What authority do they have to exceed their budget?

Mr. Jorgensen said the JLBC Staff has addressed those questions to SCF and there is a statute that requires that the Committee review a budget but SCF does not see that as an appropriation and therefore do not feel bound by that.

Representative Biggs asked which statute requires the Committee to approve the budget, and is there some kind of exemption for SCF in having their budget approved. He also asked if there was a penalty imposed on an agency when they do not stay within their budget.

Mr. Jorgensen said the statute is A.R.S. § 23-981E and there is nothing in the statute that penalizes the agency for going over budget.

Senator Arzberger commented that the Workers' Compensation Fund briefed her thoroughly on their intentions to join the Venture Capital Fund and she had serious concerns because it has a very high risk. She would support it if it only went to businesses in the state and the money remains in the state.

Senator Burns asked why has the SCF's spending exceeded the levels approved by the Committee.

Mr. Duane Miller, SCF, said that for the 2-year period that they submitted in total, the expenditures exceeded the amounts approved by the Committee because of the changes that the Committee recommended for the employee compensation and as provided in A.R.S. § 23-981.01B, SCF is to develop a separate and distinct personnel system and have been such for over 10 years. The other items over the 2-year period where we exceeded operating expenses by $500,000 in 2003, and that was due to a decision by the Board of Directors to engage outside asset managers to enhance the performance of investment portfolio. For 2004, they are expecting to have operating expenditures that are $300,000 less than those in the submission to the JLBC in 2002.

Senator Burns asked how it was possible for SCF to operate in CY 2004 without a Committee-approved budget.

Mr. Miller said that their budget is reviewed and approved by their Board of Directors each operating year. As noted by JLBC Staff, the court decision recently handed down indicated that the SCF Board of Directors bears the primary fiduciary duty to make decisions in the best interest of SCF, its policy holders and injured workers.

Representative Biggs said he did not believe that answered the question – how do you operate in violation of the statute that requires you to get a budget approved by the Committee.

Mr. Miller said they did not operate in violation of the statute. They are required, by statute, to file a 2-year budget with each year separately delineated. That was done in 2002 and the Committee took action to only approve 1 year. Subsequent to that meeting, they sent a letter to the Director of the JLBC, as well as their CEO, Don Smith, who met with Chairman Pearce and advised them that the SCF was not certain how to respond in regards to the fact that the action of the Committee seemed to be inconsistent with the statute, and that did not seem to be a concern at that time.

Representative Biggs stated for clarification, the reason SCF functioned without an approved budget by this Committee is because the Committee did not approve the budget.

Mr. Miller said the Committee only approved 1 year even though SCF brought a 2-year budget before the Committee, which statute requires. He said SCF feels they fully complied with the statute. Mr. Miller said one question might be did the Committee comply with the statute when they only passed a 1-year budget instead of a 2-year budget. Mr. Miller said they feel they are held accountable for the outcomes for the policy holders of SCF. They do not take the actions of JLBC lightly but also know that they have to manage their business in a dimension that is somewhat different. SCF takes those recommendations back for review and discusses them with the Board of Directors who has the primary fiduciary duty for the allocation of those funds and determination of the appropriate expenditures. There seems to be a lot of questions and confusion regarding the statute at this time.

Senator Burns said that the Board is making decisions like an agency director would be. A director does not have the authority to redo their budget once it is put in place by the Legislature, so it seems that the SCF should operate in the same way.

Senator Burns asked for an explanation as to why the travel budget has nearly doubled.

Mr. Miller said that the travel budget did double but the expenditures are relatively insignificant, accounting for approximately 1% of total operating expenditures. The anticipated increase is partially due to the increased costs of fuel, a great impact on the IRS mileage rates which increased nearly 10% this past year. Also, they are expanding their loss control efforts and other contacts with policyholders which will increase the amount of in-state travel.

Senator Burns said the fund pays out dividends every year to policyholders and asked if this is an indication that the premiums are too high.

Mr. Miller said the Arizona Workers' Compensation rates are established annually by an outside statistical rating agency who is authorized to perform this service by the Department of Insurance. Private insurers are bound by this filing with the exception that SCF can submit their individual experience and request a deviation. For the past 2 years they were able to support a deviation in their filing to the Department of Insurance, which was 10% below those standard rates. The company may file only one set of rates and that applies to all their policyholders. They serve a broad cross-section of different types of policyholders in Arizona. The ultimate outcome if operating costs are lower, aggressive loss control programs and medical costs containment efforts that have been initiated by SCF, have given favorable experiences relative to those industry rates. The primary driver is the superior investment performance of our portfolio, which has enabled SCF to return, in the form of investment income dividends, to policy holders which has reduced their net costs of workers' compensation insurance.

Senator Burns said, in the continuing debate on whether the SCF is a state compensation fund or a private insurance company, he believes the SCF employees are part of the State Retirement System. He asked if the SCF receives some tax benefit as being classified as a state entity.

Mr. Miller said SCF employees are a part of the State Retirement System. There are other non-state employees such as school districts and municipalities that participate in the Retirement System. With regards to the tax benefits, SCF does pay all premium taxes, property taxes, other taxes and assessments in the state that any insurance carrier operating in Arizona would incur. The tax benefits that accrue to SCF are a federal tax exemption which is primarily a result of organizations that function as a guaranteed market for workers' compensation insurance.

Senator Cannell said in looking at the overall numbers, it looks like the SCF has been very successful in their investments. He asked for an explanation on the huge jump in investment income in 2004 and then flattening out.

Mr. Miller said the reason the numbers jumped significantly in 2003 and 2004 were realized capital gains on their equity portfolio. The relatively flat numbers are based primarily on income which will be derived from dividends and are much more predictable.

Senator Burns said one of the options proposed is to approve the budget as requested but to adjust the salary increase to be in line with statewide employee salary increases. He asked if the Committee were to vote that proposal out, what would the SCF reaction be.

Mr. Miller said they feel that it probably would have a significant impact on the turnover of their workforce, such has been experienced in the state employee workforce. Since the SCF is not bound by state employment practices, they feel it is in the best interest of their policyholders to maintain the compensation. Even in the face of significant increases in their premium volume and other activities they were able to hold employee costs relatively level during that same period.

Senator Burns stated that the answer is, if the Committee votes that option out, the SCF will ignore it.

Mr. Miller said they will take it under advisement to their Board of Directors.

Representative Gray asked if the Committee could get a list of the different conferences that people attended, the number of people that went and the cost for the out-of-state travel.

Mr. Miller said he would provide a historical list of the travel.

Senator Burns said no action will be taken on this item.

DEPARTMENT OF PUBLIC SAFETY (DPS) – Quarterly Review of the Arizona Public Safety Communications Advisory Commission

Mr. Martin Lorenzo, JLBC Staff, said this is a report on 1st quarter expenditures by DPS.

<u>Senator Martin moved</u> *that the Committee give a favorable review to the 1st quarter expenditures submitted by the Department of Public Safety*. The motion carried.

JOINT LEGISLATIVE BUDGET COMMITTEE – Consider Approval of Year 2005-2006 Strategic Program Area Review (SPAR) Topics Candidates.

Mr. Stefan Shepherd, JLBC Staff, said the SPAR process is an attempt to look at issues that primarily cut across state agency lines. There are 4 basic components of the SPAR process outlined in the JLBC Staff handout (Attachment 1). The JLBC Staff is recommending the following 4 program areas for the upcoming SPAR cycle: 1) Workforce Development and Job Training issues in DES, Department of Commerce, Department of Education, Community Colleges, Governor's Council on Workforce Development; 2) Homeland Security and DEMA; 3) University Financial Aid; and 4) Ports of Entry in ADOT, DPS and Department of Agriculture.

Senator Burns noted that the Ports of Entry were the subject of a SPAR in 2000 and questioned why they are being selected again.

Mr. Shepherd said that it was one of the 3 SPARs considered 4 years ago. JLBC Staff and OSPB had different perspectives on the program. One possibility of the SPAR is to get an update, including taking into account the new staff added by DPS.

Senator Burns said Homeland Security came before the Committee at a recent JLBC meeting and they committed to providing a monthly report to the Committee, and he is not aware of a report being received.

Mr. Stavneak said that was discussed in the September meeting. They committed to submitting the first report on November 15 but the Staff has not yet received that report.

Senator Anderson asked who decided that these 4 programs would be selected for the SPAR process and was there a particular reason why they were selected.

Mr. Shepherd said these were issues that came up as Staff was doing reviews of issues and budget processes.

Senator Rios asked why university financial aid was selected, because most of the financial aid that is available for students at the university is from the federal government. Since the state does not contribute to financial aid, why would the Committee want to get into this particular area.

Mr. Shepherd said one of the issues related to the financial aid SPAR is that Staff does not have a good understanding of all the financial aid resources available to students and their families. In addition to all those programs administered by the universities, there are also federal tax credits and deductions for higher education expenses. These would be useful to know in terms of looking at all financial aid.

Senator Martin said he was recently at a meeting with several of the universities and they said they just had roughly a 40% tuition increase, primarily to go to financial aid. They are going to be coming back specifically to request more money for student enrollment, which they can put into student aid. We may not have a line item for financial aid but it was clear that the universities use a mix of tuition dollars and the appropriation as part of their funding for financial aid programs. If their plan is to continue to raise tuition, it may be useful to look at their financial aid program.

Ms. Jean McGrath, Citizen, said that she was pleased that the Ports of Entry were included in the SPAR. There have been a lot of problems in the past with funding for it. She said one of the biggest problems that people at the Ports of Entry look for are fire ants. The fire ants are a big safety and health issue in the state. She said she believes the Department of Health Services should take up some of the funding for the Ports of Entry, as a health issue it is their responsibility. The ants do not usually come in on agriculture loads, they usually come in on loads of junk steel. She said she was hoping the Ports of Entry budget would be expanded or at least not minimized.

Senator Martin moved that the Committee approve the JLBC recommendation for the following 4 program areas for the Year 2005-2006 SPAR cycle: Workforce Development, Homeland Security, University Financial Aid and Ports of Entry. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of an Intergovernmental Agreement between Arizona Department of Transportation and Maricopa County (Phoenix International Raceway (PIR)).

Mr. Lorenzo Martinez, JLBC Staff, said this is a review of an agreement between the Department of Transportation and Maricopa County regarding the state's participation in financing highway improvements to improve access to Phoenix International Raceway.

Senator Burns asked if the JLBC Staff was familiar with the improvements.

Mr. Martinez said the JLBC Staff did not know the details of the construction. The county will be responsible for taking the lead on this project so they are determining the details of construction.

Mr. Jon White, Maricopa County Department of Transportation, said the proposed improvements are road improvement access on the westerly approaches to PIR. The improvements will occur from the intersection of Vineyard with the Estrella Parkway, the road changes names at various points. Mr. White confirmed that there will be a guaranteed 2nd race at PIR.

Senator Martin moved that the Committee give a favorable review to the Arizona Department of Transportation and Maricopa County intergovernmental agreement related to the design, reconstruction and improvement costs of highway improvements to enhance access to Phoenix International Raceway. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Review of Expenditure Plan for Workforce Investment Act Monies.

Mr. John Malloy, JLBC Staff, said this is a review of an expenditure plan submitted by DES for $2.2 million in discretionary Workforce Investment Act (WIA) monies.

Senator Cannell asked why DES is scaling back money to assist nursing programs.

Ms. Gretchen Logan, Financial Service Administrator, DES, said that the nursing program received a grant that was approved at the end of June and they have not applied to the Governor's Council on Workforce Policy for an allocation in FY 2005.

Senator Burns asked with adding the new programs, does the department have any current-year shortfalls in other programs that they might use this money for.

Ms. Logan said the shortfalls that the department has right now are in Children's Services in the CPS system. These monies are specifically for WIA issues.

Senator Anderson asked why the youth programs are targeting youth between the ages of 14 and 21. He believes that you must be 16 to work.

Ms. Logan said that the program works with children who have dropped out of school so it also assists them with obtaining their GED. There are youth that drop out of school at 14 years of age.

Ms. Logan said she would get more specific information for the Committee on the difference between assisting 14 year olds versus older youths.

Senator Anderson asked why there is a specific program for women since other traditional programs already in place would not exclude women.

Ms. Logan said this program focuses on providing resources and job training to women who are in vulnerable life situations due to being a victim of domestic violence, substance abuse, or involvement with the criminal justice system. The program is not different in nature, it is the group of women who are coming into the program that differs from the traditional programs already in place.

Senator Martin moved that the Committee defer the decision on the expenditure plan until the Department of Economic Security provides more information on the new programs proposed by the Governor's Council. The motion carried.

GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING – Report on Federal Revenue Maximization Initiative.

Mr. Stefan Shepherd, JLBC Staff, said this is a quarterly report from the Office of Strategic Planning and Budgeting (OSPB) on the status of the Federal Revenue Maximization Initiative.

Senator Burns asked if there was any money from the $25 million that might be returning to the General Fund.

Ms. Anne Winter, Staff, Revenue Maximization Project for the Governor's Office, said that the $25 million was a budget balancing item and right now there are 3 projects that will be bringing in a total of about $10 million in FY 2005. There are a few other ISAs for about $135,000. She said one of the things they heard from the pool of 6 consultants they have is they were surprised on how well the state agencies have done in maximizing federal dollars.

Senator Anderson asked if we paid 6 consultants to come up with this information and do they get paid out of savings.

Ms. Winter said the consultants are paid for on a project-by-project basis. The structure of the program was ADOA did an RFP to get a pool of consultants with a particular expertise. For each project a consultant was hired. They are paid in 2 different ways, a percentage of net revenues gained or a fixed fee basis.

Ms. Winter said that there may be $300,000 in 3rd party payments from the Arizona State Hospital that will go in the General Fund.

ATTORNEY GENERAL (AG) – DEPARTMENT OF LAW – Report on New Staffing of Child Protective Services Attorneys.

Ms. Kim Hohman, JLBC Staff, said that this item is a summary of the Attorney General's report on the status of hiring new CPS attorneys and staff.

Senator Burns asked if the agency has provided any information as to when the remaining positions of the 65 will be filled.

Ms. Hohman said the AG's office indicated that the remaining 10 should be filled by the end of the fiscal year.

Representative Biggs asked if JLBC Staff had any information on the results of the trials.

Ms. Mary Bingham, Chief Council, AG, said the results of the trials that went to jury are: 14 terminations, 1 denied termination and 1 split where a determination was made on 1 child and not the other.

Senator Anderson asked if it is normal for parents not to show up for a court date and what happens to the jury when it is canceled.

Ms. Bingham said it is normal, often parents do not show up. Sometimes they let the courts know ahead of time and sometimes it is the day of the trial or even after the trial has started. Regarding how this affects the jury, it depends on when the case is cancelled.

Senator Anderson suggested the Committee look into parents not showing up. Perhaps if the parent does not show up they should have to pay for the cost of the jury or some sort of penalty for just not showing up after requesting a trial.

Representative Biggs said if it were a criminal case often there are plea changes at the moment of truth and the jury is sent home, or a trial in absentia.

Ms. Bingham said the rules of the Juvenile Court provide that if a parent does not appear, it can be converted to a bench trial.

Senator Cannell said the numbers are disappointing on the kids waiting for placement. He asked if there has been any analysis of that.

Ms. Bingham added as a clarification of the numbers is, they reflect their caseload, which means any child that is dependent and may be in-home, or in a foster home or group homes. The awaiting placements is a difficult question to answer and those numbers do not give you detailed enough analysis. We are continuing to see increases with caseload counts.

ARIZONA STATE RETIREMENT SYSTEM (ASRS) – Report on Contribution Rates.

Mr. Eric Jorgensen, JLBC Staff, said this item is a report to the full Committee from the proceedings of the JLBC Subcommittee on Contribution Rates that was held on October 21.

Mr. Anthony Guarino, Deputy Director, ASRS, said in response to Senator Burns, that the 7.75% contribution rate is the final number. He said that whether the increase can be all at once or over a period of time, is a question of how one interprets the Constitution. The agency does not have a position on that. Mr. Guarino said they have not posed that question to legal staff. If it was phased in it would add 36 basis points to the contribution rates by 2009. These projections are based on the assumption that experiences match their assumptions. They could increase or decrease based on investment performance.

Senator Burns asked about setting an annual rate as opposed to setting it on a biennial basis.

Mr. Guarino said their analysis showed some modest savings if they went to an annual rate. It would be first recognized in FY 2009 and the savings would be 8/100 of a percent. The rate increase does not bring us back to fully funded status. That will take several years, by 2013 contribution rates will peak at around 10.23% and then begin a gradual decline.

Representative Huppenthal said they have a pretty significant challenge in funding the retirement area. He said he usually feels that the phase-in is the best way to do these things, but the phase-in might be a lot more shocking than anticipated since the 8% may not materialize.

Chairman Burns adjourned the meeting at 12:00 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Bob Burns, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

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DATE: February 24, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: ADOPTION OF COMMITTEE RULES AND REGULATIONS

The Committee will consider the attached rules and regulations for adoption at its March 4 meeting. The rules and regulations are the same as the Committee used in the last biennium.

RS:lm
Attachment

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 1

NAME OF COMMITTEE AND METHOD OF APPOINTMENT

The name of the Committee is the Joint Legislative Budget Committee, hereinafter referred to as the Committee, consisting of sixteen members designated or appointed as follows:

1. The majority leaders of the Senate and House of Representatives, the Chairmen of the Senate and House of Representatives Appropriations Committees, the Chairman of the Senate Finance Committee and the Chairman of the House of Representatives Ways and Means Committee.

2. Five members of the Senate and five members of the House of Representatives who are members of their Appropriations Committees shall be appointed to the Committee by the President of the Senate and the Speaker of the House of Representatives, respectively.

RULE 2

STATUTORY POWERS AND DUTIES OF THE COMMITTEE

1. The Committee shall ascertain facts and make recommendations to the Legislature relating to the State budget, revenues and expenditures of the State, future fiscal needs, the organization and functions of State agencies or divisions thereof and such other matters incident to the above functions as may be provided for by rules and regulations of the Committee.

2. The Committee shall promulgate rules and regulations for the operation of the Committee.

3. The Committee shall have the powers conferred by law upon legislative committees.

4. The Committee shall make studies, conduct inquiries, investigations and hold hearings.

5. The Committee may meet and conduct its business any place within the State during the sessions of the Legislature or any recess thereof and in the period when the Legislature is not in session.

6. The Committee may establish subcommittees from the membership of the Legislature and assign to such subcommittees any study, inquiry, investigation or hearing, with the right to call witnesses, which the Committee has authority to undertake.

RULE 3

CHAIRMAN OF THE COMMITTEE

The Chairman of the House of Representatives Appropriations Committee shall have a term as Chairman of the Committee from the first day of the First Regular Session to the first day of the Second Regular Session of each Legislature and the Chairman of the Senate Appropriations Committee shall have a term from the first day of the Second Regular Session to the first day of the next Legislature's First Regular Session.

RULE 4

COMMITTEE PROCEEDINGS

The Committee proceedings shall be conducted in accordance with Mason's Manual of Legislative Procedure, except as otherwise provided by these rules.

RULE 5

SUBCOMMITTEES

The Committee may establish subcommittees from the membership of the Legislature and assign to such subcommittees any study, inquiry, investigation or hearing with the right to call witnesses which the Committee has authority to undertake. Each such subcommittee shall include in its membership an equal number of Senate and House of Representatives members.

RULE 6

QUORUM

A majority of the members of the Committee shall constitute a quorum for the transaction of business.

RULE 7

LEGISLATIVE BUDGET ANALYST

The Legislative Budget Analyst (hereinafter “Director”) shall be the Staff Director and the Chief Executive Officer of the Committee. The Director shall be appointed by the Committee and shall serve on a full-time basis. The Committee shall annually review the Director’s performance and determine the Director’s salary within the limits prescribed by law. The Chairman of the Committee may appoint a subcommittee to make recommendations concerning these matters.

In addition to the responsibilities prescribed by A.R.S. § 41-1273, the duties of the Director shall include any duties which shall be assigned by the Committee, including the following:

1. Compilation of information for the Committee.
2. A continuous review of State expenditures, revenues and analysis of the budget to ascertain facts, compare costs, workload and other data and make recommendations concerning the State's budget and revenue of the departments, boards, commissions and agencies of the State.
3. Act as administrative head of the Committee Staff, with authority to hire and dismiss such personnel as may be necessary for the proper conduct of the office, and fix compensation of staff members within any limits set by the Committee.
4. Maintain the records and files of the Committee.
5. Shall make special reports for presentation to the Committee and to others as directed by the Committee.
6. Attend all meetings of the Committee and such other meetings and hearings as are necessary to facilitate the work of the Committee.
7. Examine as to correctness all vouchers for the expenditure of funds appropriated for the use of the Committee.

RULE 8

AGENDA FOR MEETINGS

An agenda for each Committee Meeting shall be prepared by the Director and, whenever possible, mailed or delivered to members of the Committee, not less than one week prior to the meeting. The Director must have at least three weeks prior notice for any state agency-requested items that appear on the agenda, unless the Chairman of the Committee approves of a later submission.

RULE 9

ORDER OF BUSINESS

The Order of Business at a Committee meeting shall be determined by the Chairman of the Committee. It shall normally be as follows:

1. Call to order and roll call
2. Reading and approval of minutes
3. Executive Session (including Rule 14 items)
4. Director's Report [if any]
5. Items requiring Committee review and/or approval
6. Other Business - For Information Only
7. Adjournment

RULE 10

DISBURSEMENTS

1. All expenditures of the Committee shall be by vouchers properly itemized and supported by receipts and shall be approved by the Director when authorized by the Chairman of the Committee.

2. All contracts and studies authorized by the Committee shall be approved by the Committee after examination.

RULE 11

MEETINGS OF THE COMMITTEE

The Committee shall meet at such times and places as the Committee may determine, but in any event, no less than once in each calendar quarter. Additional special meetings may be called by the Chairman or by a majority of the members of the Committee.

RULE 12

ADOPTION AND AMENDMENT OF THE RULES AND REGULATIONS

These rules and regulations shall be adopted and may be amended by a majority vote of the members of the Committee, provided that a quorum is present.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 13

FISCAL NOTES

1. The President of the Senate and the Speaker of the House of Representatives or their designees may each designate bills that shall have a fiscal note prepared regarding their impact.

2. The JLBC Staff shall prepare the fiscal notes utilizing an impact period of three years. The fiscal notes shall indicate any local fiscal impact, where appropriate.

3. Fiscal notes shall not contain comments or opinions on the merits of the bill.

4. Exceptions to the procedure set forth in this rule shall be permitted with the approval of the Chairman and Vice Chairman of the Committee.

5. The Committee may amend or suspend this rule or any subsection hereof by a majority vote of those present and eligible to vote.

6. Procedures to implement this rule shall be prepared by the Director and approved by the Chairman and Vice Chairman of the Committee.

RULE 14

STATE LIABILITY CLAIMS - PROCEDURE FOR SETTLEMENT WHEN COVERED BY RISK MANAGEMENT SELF-INSURANCE FUND

1. General provisions for presentation of settlement to the Committee:

   A. Settlements of $250,000 or less do not require approval of the Committee pursuant to A.R.S. § 41-621(M). All proposed liability settlements must be presented to the Committee in accordance with these provisions and accompanied by a report containing the information specified in Paragraph 3.

   B. The report shall be filed with the Chairman of the Committee seven days before the meeting scheduled to consider the settlement proposal.

   C. A limited number of items may be excluded from the written report and presented orally at the Committee meeting, if the Attorney General and Risk Management Division find the exclusion to be absolutely necessary for the protection of the State's case.

   D. All Committee settlement proceedings and material prepared for such proceedings shall be required to be kept confidential.

   E. Any plaintiff's inquiries regarding Committee meeting dates, times and agendas should be directed to the Attorney General's Insurance Defense Section which shall consult with the JLBC Staff Director.

2. At a Committee meeting at which a settlement proposal is considered:

   A. Material shall be presented by the Attorney General or retained defense counsel who had primary responsibility over negotiation of the settlement and/or handling of the case, together with the Manager of the Risk Management Division of the Department of Administration.

   B. The Committee Chairman or a majority of the Committee, may request other witnesses to attend and testify at any settlement proposal meeting. When requested by a Committee member, the director of an agency named in a lawsuit for which a settlement is proposed shall be requested to appear at the meeting at which the settlement is proposed.

RULE 14 CONTINUED

STATE LIABILITY CLAIMS (CONT'D)

C. The presentation of the settlement proposal at the Committee meeting shall contain, at a minimum, the information required to be submitted pursuant to Paragraph 3.

D. In addition to the report, additional drafts, charts, pictures, documents or other items may be presented to the Committee by the Attorney General or Risk Management Division, if helpful in reviewing the merits of the settlement. Additional items shall be presented when requested by the Committee Chairman, or a majority of the Committee at a prior meeting, or a JLBC subcommittee to which the matter has been referred.

E. Upon a conclusion of the presentation, the Committee may accept the settlement as proposed, reject the settlement as proposed, recommend an alternative settlement with the advice of the Attorney General and Risk Management Division, request additional information, evaluations or appearances of witnesses, or the matter may be referred to a JLBC subcommittee for further study.

3. The written settlement proposal report submitted to the Committee for each settlement offer shall contain the following information:

A. A one to two page executive summary of pertinent information related to the case that, at a minimum, summarizes information contained in items B, D, G, H, I, K, L, N and P below.

B. The names of the plaintiffs or claimants.

C. Whether a lawsuit has been filed, the date on which it was filed and the current status of the lawsuit. If a lawsuit has not been filed, the last date upon which a lawsuit could be filed.

D. The basic facts of the case including, first, the undisputed facts and secondly, those facts in dispute.

E. A summary of the basis or bases of liability claimed by plaintiff or claimant and the State's defenses to such liability, including the key evidence relied upon by each party.

F. The amount originally claimed by the plaintiff or claimant.

G. The identifiable damages and/or costs incurred by plaintiff or claimant to date.

H. Costs incurred by the State in defending the claim or suit to date.

I. Estimated costs to the State of defending the claim or suit through trial.

J. Attorney for plaintiff, Attorney General assigned to the case, retained defense counsel, if any.

K. Estimate of plaintiff or claimant's chances of prevailing in suit against the State.

L. Range of recovery likely at trial for plaintiff's claims.

M. Complete terms of settlement including:

1. To whom payment is to be made;

2. The amount of payment;

3. The conditions, if any, attached to the payment; and

RULE 14 CONTINUED

STATE LIABILITY CLAIMS (CONT'D)

4. Deadline for settlement, if any.

N. Settlement recommendations of Attorney General and Risk Management and recommended response to settlement offer.

O. Whether the State has any claim or right of recovery against other parties, e.g., subrogation or indemnification.

P. An agency response that shall contain the following information:

1. Actions taken to eliminate or limit the future risk of liability to the state.

2. Statement as to any disciplinary action(s) taken against any employee(s) that were negligent in carrying out their duties.

4. In conjunction with the settlement procedures prescribed pursuant to this rule, the Risk Management Division shall:

A. Annually report to the Committee on the operations of the Division, the status of pending claims and lawsuits, information on actual judgements and settlements, and projected fund balances.

B. With the assistance of the Attorney General, propose to the Committee any changes in State insurance coverage, State statutes, State liability principles or claims procedures which may help to limit future State liability.

RULE 15

CONFIDENTIAL NATURE OF SERVICES

The Director, members of the JLBC Staff, and those charged with the duty of processing in any manner proposed budget estimates, recommendations or research, shall not, without consent of the recipient legislator(s), disclose to any other person whomsoever, the contents of any letter, memorandum, report, newsletter, or any other written communique.

This provision does not apply to regular JLBC Staff reports nor information which the Staff prepares and disseminates under the general authority of the Director that was not specifically requested by a legislator(s).

The violation of any provision of this rule by the Director, a member of his staff, or any person charged in any manner with the duty of processing proposed analysis or research may be deemed sufficient cause for dismissal by the Director and in the case of the Director, by the Committee.

STATE OF ARIZONA

Joint Legislative Budget Committee

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http://www.azleg.state.az.us/jlbc.htm

DATE: February 22, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Senior Fiscal Analyst

SUBJECT: Arizona Health Care Cost Containment System – Review of Comprehensive Medical and Dental Program (CMDP) Capitation Rate Changes

Request

Pursuant to a General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to report federal Title XIX Acute Care capitation rate changes to the Committee for its review prior to implementation. AHCCCS is recommending a 16% increase to the Comprehensive Medical and Dental Program (CMDP) capitation rates, retroactive to January 1, 2005 and effective through December 31, 2005. The federal government requires that capitation rates be actuarially sound.

Summary

The proposed rates are based upon an actuarial study. The proposed rates represent an increase above the current rates of approximately 16%. In comparison, the original FY 2005 budget assumed capitation rate increases of approximately 6%. The proposed rate increase adds approximately $600,000 to the cost of AHCCCS in FY 2005 and would lead to annualized costs of approximately $1.2 million in FY 2006. These amounts are included as part of the JLBC estimates for the FY 2005 AHCCCS General Fund supplemental need of approximately $58 million as well as the FY 2006 increase of approximately $222 million.

The Committee has at least the following choices:

1. A favorable review of the requested CMDP capitation rate adjustments.

2. An unfavorable review. Given the federal guidelines that the capitation rates be actuarially sound, AHCCCS would most likely implement these rates even with an unfavorable review.

(Continued)

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. AHCCCS actuaries use actual claims and encounter data, as well as projected enrollment, to determine the actual costs of services and thereby recommend increases or decreases in the capitation rates. CMDP provides medical and dental services to children in foster care, and is administered by the Department of Economic Security.

The 16% capitation rate increase recommended by the actuaries includes increases in the costs and utilization of medical services. In part, due to a federal project emphasizing the provision of preventive health services, overall utilization of primary care services among the CMDP population increased 31% while population increased by only 16%. The overall rate increase also includes a reduction due to changes in the reimbursement methodology for outpatient hospital services enacted as part of the FY 2005 budget.

RS/TS:ck

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Joint Legislative Budget Committee

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DATE: February 25, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Health Services – Review of Developmental Disabilities Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for Title XIX Behavioral Health programs. DHS is requesting a 43.3% change in the Developmental Disabilities (DD) Title XIX Behavioral Health rates, retroactive to January 1, 2005 through June 30, 2006. These rate changes will affect the Children's Behavioral Health (CBH) and Seriously Mentally Ill (SMI) Special Line Items.

Summary/Recommendation

The proposed 43.3% increase would increase the current JLBC FY 2005 supplemental adjustment by $753,100 and would increase the FY 2006 JLBC Baseline Recommendation by $1,602,100.

The Committee has at least the following options:

1. A favorable review of DHS' capitation adjustments with no conditions. DHS would view this option as an endorsement of any potential supplemental request.
2. A favorable review with the stipulation that the review does not constitute an endorsement of a supplemental request.
3. An unfavorable review. Given the federal actuarial study requirement, the department is likely to proceed with the proposed increases.

The proposed rates are based upon an actuarial study, which is required by the federal government.

(Continued)

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims data, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates.

DHS would change the DD Title XIX Behavioral Health rate from $66.32 to $95.03 per member month, an increase of 43.3%. The effective date for these changes is January 1, 2005 and the rates will be in effect until June 30, 2006. AHCCCS utilized financial and encounter data from the quarter ending September 2002 through the quarter ending June 2004 to determine the recommended capitation rate for this population for the affected calendar year. According to the department, the 43.3% increase in the DD Title XIX Behavioral Health rate is due to AHCCCS receiving more accurate and complete encounter and financial data for this population as well as increases in trend data. According to DHS, encounter data for this population has historically been inaccurate, resulting in the DD behavioral health capitation rate to be under-funded during the previous calendar year, when the agency requested a 6.1% capitation rate increase. JLBC Staff would note that at that time, there was no indication from the department that there was uncertainty in the data for this population. Approximately 42% of the increase is due to under-funding of the program and 58% is due to trend data.

RS/JM:jb

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DATE: February 25, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: Department of Economic Security - Review of Long Term Care Capitation Rate Changes

Request

Pursuant to a footnote in the FY 2005 General Appropriation Act, the Department of Economic Security (DES) is presenting to the Committee its expenditure plan for the federal Title XIX Long Term Care (LTC) program as a result of an increase in capitation rates. The plan indicates that this year's capitation rate for most clients in DES' LTC program will increase 3.18% from last year's capitation rate. Capitation rates are a fixed amount paid for every member each month to DES as the DD LTC program contractor. The federal government requires that capitation rates be actuarially sound.

Summary

The JLBC Staff recommends a favorable review of the request. The proposed rates can be funded from the existing DES budget.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DES contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and, thereby, recommends increases or decreases in the capitation rates. Once DES requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

(Continued)

DES provides services to developmentally-disabled (DD) clients eligible for the Arizona Long Term Care System (ALTCS). AHCCCS passes through federal funding to DES to provide ALTCS services to these DD clients. DES matches those federal funds with General Fund monies appropriated in its budget.

The FY 2005 General Appropriation Act includes the following footnote:

> "Before implementation of any changes in capitation rates for the Long Term Care program, the Department of Economic Security shall report its plan to the Joint Legislative Budget Committee for its review."

AHCCCS has recommended capitation rates for the upcoming contract period, which started on January 1, 2005 and will run for 18 months, to June 30, 2006. The revised per member per month (PMPM) rates are shown below. Almost all clients served by DES in the LTC program are categorized as enrolled.

Category	10/1/03-12/31/04 Rate	1/1/05-6/30/06 Rate	% Change
Enrolled (Non-Ventilator Dependent)	$ 2,856.58	$ 2,947.49	3.18%
Ventilator Dependent	$11,091.40	$11,893.28	5.21%

The increases in the Enrolled category are allocated as follows:

Category	10/1/03-12/31/04 Rate	1/1/05-6/30/06 Rate	% Change
Aid to Individuals	$2,081.81	$2,144.25	3.00%
Acute Care Services	340.28	355.34	4.43%
Case Management Services	121.00	127.13	5.07%
Administration	213.68	220.10	3.00%
Risk/Profit	41.35	42.70	3.26%
Share of Cost	N/A	(2.88)	N/A
Premium Tax	58.46	60.85	4.09%
Total - DES LTC	**$2,856.58**	**$2,947.49**	**3.18%**
Behavioral Health (DHS pass-through)	66.52	95.03	42.86%
Total Enrolled Rate	$2,923.10	$3,042.52	4.09%

As the table shows, DES' LTC program received an increase of approximately 3.18% in its portion of the capitation rate. (The Behavioral Health increase is addressed in another agenda item.) According to AHCCCS' actuary, the increases in the Aid to Individuals, Acute Care, and Case Management line items reflect SFY 2004 actual expenditures and projected trend rates. The Administration increase is slightly lower than it otherwise would have been because of the elimination of one-time Health Insurance Portability and Accountability Act (HIPAA) costs. Risk/Profit is a risk contingency amount equal to 1.5% of the preceding lines. The new Share of Cost category reflects AHCCCS' decision to adjust the capitation rate for cost recovery on LTC costs. There are no new program adjustments in the proposed new capitation rates. The current rates reflect the provider rate adjustment approved by the Legislature in the 2004 legislative session, retroactive to July 1, 2004, and therefore is included in the proposed rates.

We would also note that because the current contract year covers a 15-month time period, while the proposed contract rate time covers an 18-month time period, the actual year-over-year growth in the capitation rates is less than shown in the "% Change" column in the table above.

(Continued)

The proposed SFY 2005 blended PMPM rate is about $2,902 as opposed to the about $2,880 assumed in the SFY 2005 budget. If enrollment growth were at levels projected in the FY 2005 budget, the proposed increases would cost approximately $1.5 million from the General Fund in FY 2005. Since caseloads are currently more than 2% below projected levels, no supplemental need is anticipated.

The proposed rates are incorporated into both the JLBC and Executive budgets for FY 2006, with one exception. The JLBC budget does not incorporate the increase in the per PMPM rate for the administration component, aside from adjusting for the elimination of one-time HIPAA costs.

RS/SSh:jb
Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

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STEPHEN TULLY

DATE: February 25, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security- Review of Expenditure Plan for Discretionary Workforce Investment Act Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) is submitting an expenditure plan for $2,384,000 million in discretionary federal Workforce Investment Act (WIA) monies received by the state for FY 2005. Unlike most federal funds, the WIA monies are subject to legislative appropriation due to federal requirements. These monies cannot be spent until an expenditure plan has been reviewed by the Joint Legislative Budget Committee.

At its December 16th meeting, the Committee deferred a decision on approximately $2.2 million of this request in order to receive more information from the agency on specific programmatic expenditures. DES' response to specific JLBC questions are included as an addendum to this memo.

This new request from DES duplicates the request from the December meeting and adds $150,000 for a post-secondary preparedness program.

Recommendation

The JLBC Staff recommends a favorable review of the request with the provision that the agency provide performance measures for the approximately $1.2 million in new discretionary programs being included in the agency's expenditure plan. These programs include Training for Local LWIAs, Local Labor Market Information, Early Childhood Scholarships, High Tech Education and Post-secondary Preparedness.

(Continued)

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. The WIA legislation established block grants to states for workforce development. Funds are delivered to the local level to those in need of services, including job seekers, dislocated workers, youth, veterans, disabled individuals and employers. Services are provided through partnerships between various public and private sector employment and training agencies.

The Governor's Council has recommended the establishment of $1.2 million in new programs in FY 2005. The new programs include Training for Local Workforce Investment Areas, Local Labor Market Information, Early Childhood Scholarships, High Technology Education and a Post-secondary Preparedness Program. There is also funding for a Master Teacher Program, which was funded with an unknown allotment of "Youth Programs" monies in FY 2004. Table 1 at the end of this memo that delineates discretionary funding for both FY 2004 and FY 2005. The table includes programs to be reviewed by the Committee as well as funding that was approved at the June 2004 JLBC Meeting.

In June 2004, the Committee favorably reviewed $2,497,000 in other discretionary WIA expenditures for FY 2005. Those monies represented core functions typically funded with WIA dollars. The December 2004 expenditure plan reflects items that are more discretionary.

<u>New Programs</u>

Training For Local Workforce Investment Areas
Monies will provide $170,000 in technical assistance to local workforce investment areas (LWIAs) that fail to meet local performance measures, in addition to local areas in their continued delivery of services through the One-Stop system. This program was funded with Department of Labor monies in FY 2004. This source of funding is not available for FY 2006.

Local Labor Market Information
Funding will allow the Governor's Council on Workforce Policy and the Arizona Department of Commerce to coordinate and implement an outreach program emphasizing Labor Market Information (LMI) access and targeted training throughout the state to enable job seekers, educators, economic developers, and business leaders to make better decisions. The requested level of funding for this program is $180,000 and there is no FTE associated with this request.

Early Childhood Educators Scholarships
These funds ($433,000) will continue the efforts of the School Readiness Board to impact school readiness by providing an opportunity for early childhood educators to obtain quality professional development and leadership development. The scholarship program will continue to focus on the metropolitan areas and the under-served rural populations. Approximately 600 educators will receive funding in the first full year of funding for this program.

(Continued)

High Technology Education
The focus of these funds ($250,000) will be on developing cross-training programs with Aerospace/Defense and Semiconductor industries. Training will be designed to address the industry specific differences to ensure a smooth transition of talent to fill workforce gaps from one industry to another. It is not known if only unemployed workers will receive funding for this program. If currently employed individuals are expected to receive funding, it is not clear why the Department of Commerce's Job Training Program could not be used for this purpose.

Post-secondary Preparedness Program
These funds ($150,000) would be utilized to collaborate efforts between state agencies, the Governor's Workforce Development Council, GCIT, ABEC, community colleges and the university system to identify the skills necessary to achieve success beyond high school by high-growth industry sector. This will be done through a combination of already completed research in such areas as construction and bioscience and direct discussion with industry leaders throughout Arizona to align academic standards in high school with the knowledge and skills required for college and workplace success.

Existing Programs

The above programs will be funded, in part, by the elimination or scaling back of $1.3 million in programs funded in FY 2004. Programs recommended to be eliminated or scaled back include monies to assist Nursing Programs at the state's Community Colleges as well as Youth and Women's Programs.

In addition to the establishment of new programs, the Governor's Council also recommended to continue to support (to varying degrees) programs funded with WIA monies in FY 2004. These include programs targeting youth, women as well as master teachers.

Youth Programs
The requested funding ($301,000) will focus on youth workforce development programs targeted to youth (ages 14-21) who have dropped out of school as youth that have dropped out of school are at a higher risk of not being prepared for future employment, to retain employment, and are more likely to earn lower wages than someone who has attained a high school diploma or G.E.D. Approximately 180 youth are expected to be served in this program. The requested funding includes monies for 1 FTE position.

Women's Programs
Funding totaling $450,000 will focus on employing women from vulnerable and hard to serve areas including domestic violence, substance abuse, disability or divorce and involvement with the criminal justice system.

Master Teacher Program
The requested funding of $450,000 will provide high-poverty districts with the opportunity to train and retain high quality teachers with the goal of improving teacher effectiveness and student achievement. Funds will also be utilized for professional development of new and mid-career

(Continued)

teachers seeking additional education or national board certification, opportunities for districts to use experienced highly performing teachers as mentors and to further develop highly performing teachers as both a retention tool and as a means to improve the skill of other teachers for the purpose of improving student achievement. Approximately 139 teachers will receive funding in FY 2005.

Table 1 **Governor's Council Recommendation of 15% Set-Aside**

Programs to be Reviewed	Agency	FY 2004	FY 2005	Net Change
Training for LWIAs	LWIA	--	$170,000	$ 170,000
Local Labor Market Information	ADOC	--	180,000	180,000
Early Childhood Educators Scholarships	ADE	--	433,000	433,000
High Tech Education	ADOC	--	250,000	250,000
Master Teacher	ADE	--	450,000	450,000
Postsecondary Preparedness	GOV	--	150,000	150,000
Youth Programs	LWIA	1,000,000[1/]	301,000	(699,000)
Women's Programs	GOV	500,000	450,000	(50,000)
Nursing Programs	CC	510,400	--	(510,400)
Subtotal: Plan to be Reviewed		***$2,010,400***	***$2,384,000***	***$373,600***
Programs Favorably Reviewed by Committee				
Eligible Training Provider List	ADE	$214,300	$127,000	$ (87,300)
Incentive Funds for LWIAs	LWIA	500,000	500,000	--
Technical Assistance	LWIA	125,000	250,000	125,000
System Building	LWIA	152,000	300,000	148,000
High Concentration of Youth Activities	LWIA	200,000	200,000	--
Virtual One Stop	DES	325,000	325,000	--
Evaluation	GOV	--	125,000	125,000
Apprenticeship	ADOC	130,000	70,000	(60,000)
ADOC/State Council	ADOC	600,000	600,000	--
Subtotal: Plan Already Reviewed		***$2,246,300***	***$2,497,000***	***$250,700***
TOTAL 15% SET-ASIDE		**$4,256,700[2/]**	**$4,881,000[3/]**	**$624,300**

Legend

ADE	*Department of Education*	*LWIA*	*Local Workforce Investment Areas*
GOV	*Governor's Office*	*ADOC*	*Department of Commerce*
DES	*Department of Economic Security*	*CC*	*Community Colleges*

1/ Includes funding for Master Teacher Program
2/ Of this total, $790,000 was not expended in FY 2004
3/ Includes $790,000 in prior year funding not expended in FY 2004

RS/JM:jb

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HOUSE OF REPRESENTATIVES

DATE: February 24, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: Attorney General – Review of Allocation of Settlement Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of the allocation of monies to be received from the El Paso Natural Gas Company settlement agreement.

In addition, the Attorney General has notified the Committee of the distribution plans for 2 settlement agreements first reported at the JLBC meeting on December 19, 2002.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for the El Paso Natural Gas settlement amount. In addition, the JLBC Staff recommends that the Committee ask the AG why it is the most appropriate agency to distribute the $250,000 received for emergency preparedness and response training.

The AG has notified the Committee that it distributed $144,222 to the Arizona Association of Food Banks as a result of the settlement with Salton, Inc., the manufacturer of the "George Foremen" indoor grill. In addition, the AG has distributed approximately $1.6 million to Arizona consumers and a total of 98,476 music CDs to libraries, universities and the National Guard as a result of a separate settlement with numerous music distributors.

Analysis

The General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and it specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The Office of the Attorney General recently settled a case that will result in the receipt of settlement monies over $100,000.

(Continued)

Analysis (Continued)

The case involved violations of state antitrust laws by El Paso Natural Gas Company. The Arizona Attorney General, through outside counsel, alleged that El Paso Natural Gas manipulated the supply of natural gas resulting in increased costs to Arizona consumers. Under the settlement, El Paso Natural Gas agreed to pay a total of $78,375,000 for a variety of purposes. The following summarizes how the $78.4 million will be spent:

- $40.0 million to enhance the company's Phoenix area pipeline
- $30.0 million in capital improvements for the company's Arizona Pipeline Integrity Program
- $3.0 million to upgrade the company's Tucson station
- $3.0 million to the Low-Income Energy Assistance Program (LEAP) administered by the Department of Economic Security (DES)
- $250,000 for emergency preparedness and response training allocated through the AG's Office
- $125,000 to commission an independent study to determine how to diversity the state's supply of natural gas
- $2.0 million in attorneys' fees and investigative costs

Of the $2.0 million paid for attorneys' fees and investigative costs, the Arizona Attorney General's Office will receive $400,000 for deposit in the Antitrust Enforcement Revolving Fund. The remaining $1.6 million will be paid to outside counsel used in this case.

The $3.0 million distributed to the Low-Income Energy Assistance Program will be administered by the Division of Aging and Community Services within DES. The settlement specified that the monies shall be used for purposes aimed at providing targeted assistance to low-income Arizona residents dealing with high energy prices. Pursuant to statute, monies in Arizona's LEAP program are spent on emergency energy payments for low-income households, improvements to homes to make them more energy efficient, and community outreach programs.

As previously mentioned, the Attorney General will receive $250,000 for emergency preparedness and response training. Pursuant to the settlement agreement, the AG will coordinate with appropriate state agencies to fulfill this purpose. At this time, the AG's Office has not yet determined which agencies will receive funding from this portion of the settlement.

In addition to the El Paso Natural Gas settlement, at its December 2002 meeting, the Committee requested the Attorney General provide specific distribution plans for 2 settlement agreements once they were available. These 2 settlements, as well as the distribution plan for each, are described below.

Salton

At the December 2002 JLBC meeting, the Committee requested that the Office of the Attorney General report back once it has finalized a distribution plan for expending monies received from the Salton, Inc. settlement. In the case, Salton, Inc. was alleged to have violated federal and state antitrust laws. The settling jurisdictions complained that Salton Inc., the manufacturer of the "George Foreman" indoor grill, arranged an illegal resale price maintenance scheme that prevented retailers from discounting prices, and which excluded rivals from the marketplace.

Under the settlement, Salton agreed to pay $8.2 million over 3 years, of which approximately $145,800 was to be paid to the State of Arizona and distributed in a manner to benefit consumers throughout the state. The AG has notified the Committee that in the multi-state settlement, the state actually received $144,222 and distributed this entire amount to the Arizona Association of Food Banks on May 13, 2004.

(Continued)

Analysis (Continued)

CD Music Distribution
The second settlement involved violations by numerous music distributors and retailers related to illegal practices intended to raise the price of prerecorded music. Pursuant to the settlement agreement, the companies agreed to pay a total of $67.4 million for the payment of attorneys' fees and direct distribution to consumers in each settling jurisdiction, and to provide approximately 5.5 million music CDs for distribution by the state Attorney General for the benefit of consumers in each state.

The AG has informed the Committee that Arizona consumers received a total of approximately $1.6 million. In total, there were 117,496 claimants that received an average of $13.86 each. In addition, the state received 98,476 music CDs with an approximate value of $1.3 million. The AG distributed 78,780 CDs to public libraries, 9,848 to public universities, and 9,848 to the National Guard. The detailed distribution list, including each entity and the number of CDs received, is available upon request.

RS/KH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

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SENATE

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HOUSE OF
REPRESENTATIVES

DATE: February 23, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo III, Assistant Fiscal Analyst

SUBJECT: Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission

Request

Pursuant to Laws 2004, Chapter 281 the Department of Public Safety (DPS) has submitted for review their FY 2005 second quarter expenditures and progress for the statewide interoperability design project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the agency request. Second quarter expenditures totaled approximately $47,800 out of $5,000,000 in available funding. An Executive Director and 2 staff positions have been hired for the Public Safety Communication Advisory Commission (PSCC). In addition, 8 of the 14 commissioners have been confirmed by the Senate.

Analysis

Background

Laws 2004, Chapter 275 appropriated $5 million to DPS for design costs of a statewide radio interoperability communication system. Radio interoperability allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency as well as daily emergencies. Construction costs of a statewide radio interoperability communication system are estimated to be as high as $300 million.

Second Quarter Activities

In the second quarter of FY 2005, PSCC expended approximately $47,800 and encumbered an additional $76,200. The main emphasis of the quarter was to hire staff and educate commission members. The

(Continued)

majority of expenditures supported the 2 FTE Positions hired in the quarter (Executive Director and Administrative Services Officer) and the purchase of office equipment (computers, printers, software, and telecommunications equipment). The PSCC held one meeting in the second quarter at which the 14 commissioners appointed by the Governor's Office were orientated with the PSCC, educated on the current DPS communication system and discussed interoperability issues. In November 2004, the PSCC Executive Director met with the Deputy Director of the Governor's Office of Homeland Security to review radio communication technology and discuss funding issues to attempt to avoid duplication of effort within the state. The monies encumbered in the second quarter are primarily due to the purchase of 2 vehicles, mobile radios and office furniture.

Current Updates

In January 2005, the PSCC hired an Executive Assistant and expects to name a Project Manager by the end of the third quarter. In total the PSCC will hire 9 FTE Positions. Office space for the support office has been occupied and the lease is currently being reviewed by both the Department of Administration and Attorney General's Office. The commission held their second meeting in January and heard presentations from the City of Mesa and the City of Phoenix on their shared communication system.

In accordance with Laws 2004, Chapter 281, the Executive Director has been in contact with the Government Information and Technology Agency (GITA), who presented at the commission's January meeting.

These updates will be reflected in review of the third quarter expenditures.

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DATE: February 28, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Office of Homeland Security – Report on Homeland Security Funding

Request

Laws 2004, Chapter 275 requires the Arizona Office of Homeland Security (OHS) to submit a report by August 1, 2004 on the allocation and expenditure plans for homeland security grant monies in FY 2004 and FY 2005. This report is to provide allocation and expenditure information by year, by activity and entity, and is to include state and local entities. In September 2004, OHS submitted allocation and expenditure information for FFY 2003. At its October 14, 2004 meeting, the Committee requested that OHS submit a monthly report updating expenditures for FFY 2003 grants, and FFY 2004 allocation and expenditure information when it became available. OHS submitted a report in December and February, and has requested that they be permitted to report quarterly.

Recommendation

Since the October report, expenditures from the FFY 2003 State Homeland Security Grant Program (SHSGP) grants have increased from 16.5% to 39.6%. The office also reports that 44% of all eight FFY 2003 grants have been expended. The expenditure deadline established by the U.S. Department of Homeland Security for these grants is March or April, dependent upon the grant. OHS has requested a deadline extension, but if this extension is not granted all unobligated monies will revert back to the federal government. To ensure these funds are expended, OHS has sent a letter to grant recipients asking them to provide the amount of monies which they have not allocated. OHS hopes to reallocate the remaining unused funds to other jurisdictions prior to the deadline.

FFY 2004 monies have been allocated now that the Regional Advisory Councils have been established. OHS also submitted information describing allocations to state agencies along with brief project descriptions. OHS has not allocated FFY 2005 funds.

(Continued)

This item is for information only and no Committee action is required. JLBC Staff recommends that the Committee request OHS submit the following:

- A monthly report on FY 2003 funds until all Arizona monies are expended, reverted to the federal government, or a deadline extension is granted by the U.S. Department of Homeland Security.
- A quarterly report on FFY 2004 and FFY 2005 allocations and expenditures for both local and state agency awards. The report should include a narrative description detailing each state project awarded funding. This narrative should identify the goals and objectives of each state project and indicate what progress has been made on each project since the last report.

Analysis

FFY 2002

OHS reports that in FFY 2002, the state as a whole received a total of $16.2 million, expending $15.7 million. Of the total amount, $2.7 million was allocated to state agencies and $13.4 million was allocated to local governments. State agencies have expended 95.5% of their allocation and local governments have expended 95.7% of their available funding.

FFY 2003

In FFY 2003, OHS reports that the state received a total of $61,015,538 in homeland security monies. Of the $14,761,342 available to state grantees, $6,819,740, or 46.2%, has been expended. Local governments have expended $12,904,921, or 27.9% of their allocation. Table 1 shows allocations and expenditures of Arizona's FFY 2003 grants.

The 2003 SHSGP awarded $5,586,600 to local governments. OHS reports that local governments have expended $1,311,013 of this amount. State agencies received $4,997,400 and have expended $2,857,035. While all grantees have expended a portion of their share of this grant, none have used their entire allotment. Unless an extension is granted by the U.S. Department of Homeland Security, these funds will revert back to the federal government on March 31 of this year. Most states have sought extensions for 2003 grants, which may provide up to an additional six months to expend homeland security grants.

OHS reports that the Supplemental 2003 State Homeland Security Grant Program provided an additional $16,716,000 to local governments and $7,579,000 to state agencies. Grantees which have not expended any of their allocation include Apache and Yuma Counties, the cities of Phoenix, Mesa, and Glendale, and the Departments of Transportation, Corrections, the Arizona Criminal Justice Commission, and Arizona State University. If the U.S. Department of Homeland Security does not grant an extension, funds from this grant will revert to the federal government on April 30, 2005.

Table 1

Grant	Allocation	Expended	Percentage Expended
SHSGP	$10,584,000	$4,168,048	39.4%
SHSGP Supplemental	24,295,000	9,577,572	39.4%
UASI	11,033,467	0	0.0%
Community Emergency Response Team	351,339	324,966	92.5%
Critical Infrastructure Program	3,738,000	2,844,327	76.1%
Metropolitan Medical Response System	400,000	400,000	100.0%
Fire Assistance	7,490,693	7,490,693	100.0%
Emergency Management Performance Grant	3,123,039	2,040,414	65.3%
Total:	**$61,015,538**	**$26,846,020**	**44.0%**

The UASI award amount in 2003 was $11,033,467. Recipients of this grant are Phoenix METRO and the Department of Public Safety. OHS reports that no funds have been expended from this grant.

(Continued)

FFY 2004

Beginning in FFY 2004, Arizona allocated local government Homeland Security grants according to a newly implemented regional model. According to OHS, this model, which includes five regions divided along county lines, will foster a regional approach to homeland security, allowing communities to share resources where appropriate.

Funding to each region is based on a baseline amount and risk calculations established by OHS. Decisions regarding how funds are allocated within each region are made by a regional advisory council composed of ten members representing fire protection services, law enforcement, local governments, the public and private sectors, tribal governments, emergency management, and the Department of Public Safety. Regional advisory committee members are appointed by the OHS Director on behalf of the Governor.

Homeland security funding to state agencies occurs outside of the regional model. Agencies send funding requests to OHS, which reviews the requests and selects which proposals to award grant monies. The Department of Emergency and Military Affairs administers homeland security grants according to allocations designated by OHS or the regional advisory committees.

The state of Arizona's homeland security funding in FFY 2004 totaled $59,326,808. OHS received $56,632,527 of this amount, and the remainder is allocated directly to grantees by the federal government. Of this amount, $10,723,364 was allocated to state agencies, who have expended $1.7% to date. Table 2 shows FFY 2004 allocations to state agencies. OHS has not yet allocated $800,000 from the State Homeland Security Program to state recipients.

Table 2

Agency	Allocation	Description
Agriculture	$ 914,625	Training, Lab Equipment
Capitol Police	110,000	Interoperable communication equipment, body armor
Corrections	300,000	Interoperable communication equipment
Emergency & Military Affairs/OHS	5,275,939	Administration, Planning, Equipment, Training
Environmental Quality	400,000	Contingency Server, Water Monitoring
Public Safety	2,632,800	Personal Protective Equipment, Bomb Squad funding, Arizona Counter Terrorism Information Center funding
Radiation Regulatory Agency	250,000	Equipment and Training for response team
Transportation	840,000	Interoperable communication system, Internet security
Total	**$10,723,364**	

The five Regional Advisory Councils were awarded $38,976,968 on January 10, 2005. Table 3 shows the FFY 2004 allocations to each region. A total of $5,220,712 has not yet been allocated to local governments.

Table 3

Arizona FFY 2004 Regional Funding

Region	Allocation	Funding Per Capita*
Central	$21,483,961	$6.25
East	3,066,705	10.67
North	3,563,415	12.32
South	7,994,054	6.63
West	2,868,833	7.88
Total	**$38,976,968**	**$7.16**

* Based on 2002 U.S. Census estimates.

(Continued)

FFY 2005

In FFY 2005, a total of $41,704,818 was allocated to Arizona from six homeland security grants. This represents a 28.7% decline from the same FFY 2004 grants, which totaled $58,498,308. Table 4 illustrates the differences between funding amounts in FFY 2004 and FFY 2005. OHS has not yet submitted an allocation plan for FFY 2005.

Table 4

Grant Program	FFY 2004 Award Amount	FFY 2005 Award Amount	Difference
Homeland Security Grant Program	$31,304,000	$20,021,731	(36.0)%
Law Enforcement Terrorism Prevention Program	9,289,000	7,280,630	(21.6)%
Citizen Corps	650,000	254,176	(60.9)%
Urban Area Security Initiative	12,128,223	9,996,463	(17.6)%
Metropolitan Medical Response System	1,850,000	910,368	(50.8)%
Emergency Management Performance Grant	3,277,085	3,241,450	(1.1)%
Total	**$58,498,308**	**$41,498,308**	**(28.7)%**
Fire Grants*	328,679	--	--
Information Technology Grant*	499,821	--	--

*Because these grants have not received 2005 allocations, they are not included in the comparison

FFY 2006

The President released the FFY 2006 Executive budget proposal on February 7, 2005. Overall, funding for five of the largest Homeland Security grants is down 11.5% from FFY 2005 amounts. Because the President's budget proposes a change in the grant formulas which distribute Homeland Security funds, there are no specific estimates as to how individual states might be impacted. These changes would increase the weight given to population while reducing the baseline amount allocated to each state. The President's FFY 2006 budget also includes $39 million for costs associated with the Arizona Border Control (ABC) initiative.

ABC Initiative

On March 16, 2004, the U.S. Department of Homeland Security implemented the Arizona Border Control Initiative. The stated purpose of this initiative is to achieve operational control of the Arizona border and support of the Homeland Security priority mission of anti-terrorism, detection, arrest, and deterrence of all cross-border illicit trafficking.

Highlights of the ABC initiative include:

- 60 additional U.S. Border Patrol Agents trained in search and rescue operations.
- Adding 200 experienced Border Patrol Agents to the Tucson region, bringing the total number of agents in the region to 2,000.
- Using Unmanned Aerial Vehicles for border surveillance.
- Immigrations and Customs Enforcement operations flying increased aerial patrols.

(Continued)

Table 5 describes the increases in apprehensions, drug seizures, and rescues during the first seven months of the program, as compared to the same period from the prior year.

Table 5

Arizona Board Security Initiative

Action	2003	2004
Apprehensions	225,108	351,757
Marijuana Seizures (lbs)	164,953	353,302
Cocaine Seizures (lbs)	86	4,777
Heroin Seizures (lbs)	17	1,525
Migrant Deaths	132	141
Exposure Deaths	85	63
Migrant Rescues	445	697
Felony Prosecutions (Immigration)	973	1,431
Misdemeanor Prosecutions (Immigration)	1,211	2,955

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DATE: February 23, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: Arizona Community Colleges – Report of Chairmen of Subcommittee on Dual Enrollment

A.R.S. § 15-1821.01 directs the community college districts to periodically report to the Committee on their dual enrollment programs. On receipt of the report, the Committee is required to convene an ad hoc committee to review the manner in which community college dual enrollment courses are provided. The Ad Hoc Committee on Dual Enrollment met in the fall of 2004 to discuss issues related to the programs. The Chairmen of the ad hoc committee would like to update the members of the Committee on the progress of those discussions. *(See Attached.)*

RS:JC:ss
Attachment

MATERIALS WILL BE DISTRIBUTED LATER